

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 SS-15 NSC-10 CIAE-00 DODE-00 INR-10

NSAE-00 PA-03 RSC-01 USIA-15 PRS-01 COME-00 EB-11

LAB-06 SIL-01 OMB-01 H-03 AGR-20 RSR-01 /124 W

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R 311440Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3009

INFO AMCONSUL BELFAST

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

C O N F I D E N T I A L LONDON 08780

E.O. 11652: GDS

TAGS: PINT, UK

SUBJECT: HEATH DRAWS LESSONS FROM BY-ELECTION DEFEATS

REF: LONDON 8700 (DEPT ONLY)

1. SUMMARY: THE HEATH GOVT HAS TAKEN TO HEART LAST WEEK'S BY-ELECTION DEFEATS (REFTEL), BUT IS MOMENTARILY AT A LOSS HOW TO WIN BACK DISENCHANTED VOTERS. IT FIRMLY INTENDS TO "KEEP ITS NERVE," PURSUE ECONOMIC EXPANSION, SEEK TRADE UNION COOPERATION IN CURBING INFLATION, DO A BETTER JOB OF EDUCATING THE ELECTORATE, AND PRAY FOR SOME RELIEF IN THE RISE OF WORLD COMMODITY PRICES. END SUMMARY

2. GOVERNMENT SPOKESMEN, FROM THE PRIME MINISTER DOWNWARDS, WERE QUICK TO ACKNOWLEDGE PUBLICLY THAT LAST
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WEEK'S STUNNING BY-ELECTION DEFEATS WERE LARGELY DUE TO

POPULAR EXASPERATION WITH THE GOVT'S CONTINUING INABILITY TO CONTAIN INFLATION. AT THE SAME TIME THEY MADE CLEAR THEIR FIRM RESOLVE TO HOLD TO AN EXPANSIONIST ECONOMIC POLICY AND TO RIDE OUT PRESENT DIFFICULTIES IN HOPES OF AN ECONOMIC BREAKTHROUGH.

3. IF THE GOVT IS TO HAVE ANY CHANCE OF SUCCESS, IT MUST SECURE SOME MEASURE OF TRADE UNION COOPERATION. TO THIS END, HEATH MET WITH TUC LEADERS JULY 27, AND URGED ON THEM THE VIRTUES OF THRESHOLD AGREEMENTS (ESCALATOR CLAUSES) IN PHASE III AS THE MOST EQUITABLE MEANS OF MITIGATING THE EFFECTS OF INFLATION. HE ALSO SOUGHT TO DEMONSTRATE HOW LITTLE SCOPE THERE IS FOR ANY INCREASE IN CONSUMPTION IF EXPORTS AND INVESTMENTS ARE TO BE MAINTAINED. THE TRADE UNIONISTS HEARD THE PRIME MINISTER OUT, BUT REMAINED NONCOMMITTAL. THEY ARE COOL TO THE IDEA OF THRESHOLD AGREEMENTS, AND WANT A RETURN TO UNRESTRICTED COLLECTIVE BARGAINING.

4. ON JULY 30 HEATH MET WITH LEADERS OF INDUSTRY AS WELL AND AFTERWARDS DECLARED HIMSELF SATISFIED WITH THE PROGRESS OF BOTH SETS OF TALKS. NO ONE, HE ASSERTED PUBLICLY, WANTS INDUSTRIAL CONFRONTATION. THE FIRST KEY TEST FOR HIS PHASE III POLICIES, HOWEVER, WILL COME IN SEPTEMBER WHEN THE TUC CONGRESS MEETS TO DECIDE ON WHETHER THE UNIONS SHOULD CONTINUE TALKING TO THE GOVT, AND IF SO, WHAT THEIR DEMANDS SHOULD BE.

5. BESIDES ENLISTING TRADE UNION COOPERATION, THE GOVT MUST REGAIN THE VOTERS' CONFIDENCE ON PRICES. FRANKLY ADMITTING THAT A BETTER JOB NEEDED TO BE DONE ON EDUCATING PEOPLE AS TO THE CAUSES OF TODAY'S INFLATION, HEATH TOOK THE LEAD OVER THE WEEKEND BY REBUTTING CHAPTER AND VERSE LABOR CLAIMS THAT THERE WERE CHEAP SOURCES OF FOOD AVAILABLE OUTSIDE THE EC THAT WERE DENIED TO BRITAIN BY ITS EC MEMBERSHIP. (THE GOVERNMENT IS FRANKLY CONCERNED OVER THE HEADWAY BEING MADE BY ANTI-MARKETEERS IN THEIR CAMPAIGN TO ATTRIBUTE HIGHER FOOD PRICES TO EC MEMBERSHIP.) ONE SIDE EFFECT OF THE NEED FOR A STRONG, ARTICULATE, AND POPULAR SPOKESMAN TO "SELL" THE GOVT'S CONFIDENTIAL

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CAUSE TO THE VOTERS HAS BEEN TO REVIVE SPECULATION THAT IT IS TIME TO BRING WILLIE WHITEHEAD BACK INTO THE DOMESTIC ARENA.

6. IN THE FINAL ANALYSIS, OF COURSE, THE BEST HOPE FOR THE GOVT LIES IN AN ABATEMENT OF WORLD COMMODITY PRICE RISES. GOVT SPOKESMEN CONCEDE PRIVATELY THAT THEY SEE LITTLE REAL PROSPECT OF THIS HAPPENING SOON, BUT IN ANY

EVENT THEY INTEND TO KEEP THEIR NERVE AND HOLD THEIR
PRESENT COURSE.

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